FINANCE COMMISSION OF TEXAS

AUDIT COMMITTEE MEETING

Friday, December 12, 2014 8:00 a.m.

Finance Commission Building William F. Aldridge Hearing Room, 2601 N. Lamar Blvd. Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission agencies is allowed unless the comment is in reference to a rule proposal for which the public comment period has ended. However, upon majority vote of the Commission, public comment may be allowed related to final rule adoption.

- A. Review and Approval of Minutes of the October 17, 2014, Audit Committee Meeting
- B. Audit Committee Review of Agencies' Activities
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Fiscal Year 2015 Internal Auditor's Risk Assessment and Audit Plan for the Finance Commission Agencies
- D. Report on Activities Relating to the Texas Financial Education Endowment Fund

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MINUTES OF AUDIT COMMITTEE MEETING

Friday, October 17, 2014

The Audit Committee of the Finance Commission of Texas met Friday, October 17, 2014, in the Finance Commission Building, William F. Aldridge Hearing Room, 2601 North Lamar Boulevard, Austin, Texas.

Members in attendance:

Cindy Lyons, Audit Committee Chair Lori McCool, Audit Committee Member Bill White. Ex Officio Member

Members absent:

Victor Leal, Audit Committee Member

Others in attendance:

Leslie Pettijohn, Commissioner, Office of Consumer Credit Commissioner (OCCC)

Charles Cooper, Executive Director to the Finance Commission and Commissioner, Department of Banking (DOB)

Caroline C. Jones, Commissioner, Texas Department of Savings and Mortgage Lending (TDSML)

Audit Committee Chair Cindy Lyons called the meeting to order at 8:33a.m.

Audit Committee Chair Cindy Lyons requested Chairman Bill White to participate as a voting member of the Audit Committee.

Review and Approval of Minutes of the August 15, 2014, Audit Committee Meeting

Lori McCool made a motion to approve the minutes of the August 15, 2014, Audit Committee meeting. Bill White seconded and the motion passed.

Audit Committee Review of Agencies' Activities

Discussion item only.

Office of Consumer Credit Commissioner

Commissioner Pettijohn reported no significant changes in this report from the prior report.

Texas Department of Banking

Kurt Purdom, Director of Bank & Trust, gave an update on progress being made in terms of processing and conducting examinations.

Texas Department of Savings and Mortgage Lending

Commissioner Jones gave an update on implementation of audit recommendations.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' August 31, 2014, Investment Officer Reports

Office of Consumer Credit Commissioner

Commissioner Pettijohn gave an update on the Financial Education Endowment Fund and stated they are in discussion with Safekeeping Trust Company on the timing and frequency of transfers to the invested portion of the fund. The Residential Mortgage Loan Originator Recovery Trust Fund continues to be stable.

Texas Department of Banking

Russell Reese, Director of Special Audits, reported nominal activity in the Guaranty Fund. Two seizures will be finalized this month and there will be no seizures on the next report.

Texas Department of Savings and Mortgage Lending

Antonia Antov, Director of Administration and Finance, reported that the Recovery Trust Fund had minimal activity and the current balance is \$3.7 million.

Lori McCool made a motion to approve the Investment Officer Reports, Bill White seconded and the motion passed.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fourth Quarter Financial Statements

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the OCCC Fourth Quarter Financial Statement and variances. The OCCC increased reserves designated for the building to \$4.5 million. The agency will continue to evaluate cash flow requirements and whether they can designate an additional \$500,000 to match the reserves of the other two agencies.

Texas Department of Banking

Sami Chadli, Director of Administrative Services, provided an overview of the DOB Fourth Quarter Financial Statement and variances. He also stated that budget was moved within the salary and wages category in FY14 and FY15. This movement was from other salaries to classified salaries in the amount of approximately \$90,000 for FY14 and \$77,000 for FY15 related to misclassifying the travel stipend budget. The DOB did increase building reserves to \$5 million.

Texas Department of Savings and Mortgage Lending

Antonia Antov, Director of Administration and Finance, provided an overview of TDSML's Fourth Quarter Financial Statement and variances. Revenues are over budget mainly due to the volume of license applications.

Bill White made a motion to approve the Fourth Quarter Financial Statements, Lori McCool seconded and the motion passed.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Financial Education Endowment Fund

Commissioner Pettijohn gave an overview of endowment fund and activities. This was a discussion item only.

There being no further business of the Audit Committee of the Finance Commission of Texas, Chair Cindy Lyons adjourned the meeting at 9:01 a.m.

Cindy Lyons, Chair of the Audit Committee
Finance Commission of Texas

Charles G. Cooper, Executive Director of the
Finance Commission of Texas

Judy Schooling, Executive Assistant Finance Commission of Texas

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Texas Department of Savings and Mortgage Lending Outstanding Audit Issues Report as of November 30, 2014

Auditor	State Office Of Ris	k Management Audit Report Date
Audit Area	Risk Management	8/26/2014
Recommendation	on	Status Update
for potential dire	ilding contents and ectors' and es and develop vent and finance	<i>In progress.</i> Building contents insurance obtained. Analysis of Directors' and Officers' Insurance in progress. Risk assessment to be completed December 31, 2014.

Office of Consumer Credit Commissioner Outstanding Audit Findings Report as of 12/1/2014

Auditor State	Office of R	sk Management	Audit Report Date
		uity Plan/COOP	Aug-12
Finding		Status Update	
Develop an actionable business continuity p the FEMA Continuity Operations (COOP) f	lan using of	Implemented. OCCC has emergency management plan that has been recommended FEMA Continuity of Operations Format. Agency has been business continuity consultant from SORM to assist in the development of Completion date October 2014.	en assigned a
Auditor U.S.	Dept. of Jus	etice FBI	Audit Report Date
		ated Fingerprint ID System Audit	Apr-13
Finding		Status Update	•
Obtain Authorization criminal history for C Access Business Lic	redit	In progress. No changes to be made at this time. The agency has state under section 14.151 Texas Finance Code to obtain criminal history, but recognize that section as authoritative and desires that Ch. 393 be added found in Gov't Code section 411.095. The omnibus short term lending recontained the desired amendment. Unfortunately, the reform bill did not Legislation will be recommended for the 84th session.	t the FBI does not do to the provisions eform bill,
Auditor Texas	Comptrolle	r of Public Accounts	Audit Report Date
	Payment Au	ıdit - Purchase	Feb-14
Finding		Status Update	
Strengthen current procedures to prever duplicate refunds to v		In Progress. The agency implemented a new online payment system is which will assist in reconciliation process. System controls are in place in number of needed refunds to assist in the prevention of duplicate payments completion date December 2014.	to reduce the
Auditor Texas	Comptrolle	r of Public Accounts	Audit Report Date
Audit Area Post-	Payment Au	udit - Expenditure Processing	Feb-14
Finding		Status Update	
Review controls over expenditure processis segregate tasks to en no individual is able to process payments with oversight.	sure that	In Progress. The agency's accounting department consists of three ended the department is so small this makes segregation of duties a challenge tasks. The agency has internal controls and policies in place to help enarre processed appropriately. The agency will evaluate whether additional feasible and beneficial. Estimated completion date December 2014.	when assigning job sure that vouchers
Auditor Garza	a / Gonzalez	z & Associates	Audit Report Date
Audit Area Profe	ssional Lice	ensing	Jun-14
Finding		Status Update	
Develop a reconciliat process between Pav Employee Database general ledger to ens fees are received for approved and renewe	vnshop to the ure all licenses	<i>In progress.</i> The reconciliation process will be performed through ALE a monthly basis. Additional resources are required to accommodate rec process. Reconciliation implementation planned for December 2014.	•
Auditor Garza	a / Gonzalez	z & Associates	Audit Report Date
Audit Area Profe	ssional Lice	ensing	Jun-14
Finding		Status Update	
Implement a quality of review process for RI Pawnshop Employee applications received sampled and reviewed periodic basis.	MLO and are	<i>In progress.</i> Additional resources are required for the new quality concurrent volume levels. The agency is committed to continually improving efficient manner and will plan for a quality control process. Implementati 2015.	the process in an
L			

Texas Department of Banking Outstanding Audit Findings Report as of December 2014

Auditor	State Aud	itor's Office (SAO)	Audit Report Date										
Audit Area	Bank Exa	minations	June 2009										
Finding		Status Update											
Improve timeliness examination report processing		and 75%, respectively, of the examina guidelines. However, when joint examination excluded, the percentage mailed within policy goincreases to 86%. The average number of days											
Conduct bank examinations in a ti manner	imely	and 72%, respectively, of the examinations w	ear ending August 2013 and August 2014, 62% were conducted within policy guidelines. The cal year 2014 were 28 days, compared to 41 days										
Auditor	State Offi	ce of Risk Management	Audit Report Date										
Audit Area	Death Inv	estigation	June 2014										
Finding CPR/Defibrillator T	Γraining	Status Update Implemented – All defibrillators were reg CPR/Defibrillator training for the Regions and A	gistered with EMS offices and a combined										
Auditor	Garza / G	onzalez and Associates	Audit Report Date										
Audit Area		ent Information Systems	July 2014										
Finding		Status Update											
Review server setting include procedures semi-annual review procedures manual	for	semiannual reviews will be conducted. Chap	be completed by January 1, 2015. Thereafter, pter 14 of the Personnel Manual, Information updated with the new policy. The new policy										
Establish a 15 day s policy for mobile do and have current us sign revised policy	evices	Implemented – The mobile device email request form has been updated to address 14 day synchronization policy. Chapter 14 of the Personnel Manual, Information Standards & Procedures, has been updated with the new policy. The new policy won October 15, 2014.											
Establish policy and procedures to require annual user access 1	re an	subsequent reviews yearly. This procedure has	ted a review of user access and will conduct as been added to Chapter 14 of the Personnel Procedures. The new policy was approved on										

Agency No.451 Banking, Department of

Self-Reported Status of State Auditor's Recommendations

SAO Report No. 10-012

A Supplemental Audit Report on the Department of Banking

2-1

Auditors tested the timeliness of 10 bank examinations the Department conducted between January 1, 2006, and March 31, 2009, at commercial banks for which the FDIC is the federal oversight entity. The Department conducted 3 (30.0 percent) of those 10 examinations late. The 3 examinations were conducted an average of 41 days late. It is important to note, however, that none of the late examinations was for a bank with a CAMELS rating of 3, 4, or 5. The Department recently revised its internal policy for examination due dates, and under the new guidelines, only two of the examinations would fall outside the new parameters for timeliness. If examinations are not conducted on time, there is an increased risk that problem banks will not be identified in a timely manner.

Recommendation

The Department should ensure that it conducts the bank examinations in a timely manner in accordance with its policy.

Management Response as Reported On: 11/7/2014

Status: Substantially Implemented

Target Date for 12/31/2015

RESPONSE

For the fiscal year ending in August 2014, 72% of the examinations were conducted within policy guidelines compared to 62% for fiscal year 2013. Further improvement in meeting policy requirements is anticipated as the number of problem institutions has decreased to a more traditional level, requiring fewer on-site examinations and allowing staff resources to address examination priorities in a more timely manner. Also, improvements in attracting and retaining experienced examiners should contribute to better risk focused and efficient examinations.

<u>Implementation History:</u>

Status as of: 11/26/2013 Incomplete/Ongoing

Target Date: 12/31/2014

Response: For the fiscal year ending August 2013, 62% of the examinations were conducted within policy guidelines. Further improvement in meeting policy requirements is expected as the number of problem institutions decreases, which will allow more flexibility in scheduling eighteen month examinations. Improvements in staff experience will also contribute to more efficient examinations, primarily due to less training responsibilities.

Contact: Kurt Purdom, Director of Bank and Trust Supervision

Status as of: 1/14/2013 Incomplete/Ongoing

Target Date: 8/31/2013

Response: Correction of this finding is not expected until examination staffing resources are significantly enhanced. As noted in the SAO report, the Department was then operating with 32 fewer commissioned examiners than the agency's staffing plan required. A lack of experienced examiners lowers the production efficiency levels, and inexperienced staff requires more training. The Department has worked diligently to build the experience level of its examination staff, and in the last year, the number of commissioned examiners has increased by four. However, the number still lags the number of commissioned examiners required in the staffing plan, which has been increased by five since the SAO audit. The agency is currently operating with 29 fewer commissioned examiners than the staffing plan requires, even though the recruiting of experienced staff and development of existing staff have increased. Other factors affecting the timeliness of examinations include the economy, industry trends, and the requirement to coordinate examinations of problem institutions with federal agencies.

For the fiscal years ending August 2011 and August 2012, 53% and 48%, respectively, of the examinations were conducted within policy guidelines. The average days late to begin an examination increased from 31 days to 34 days in the respective fiscal years. Contact: Stephanie Newberg, Deputy Commissioner

Status as of: 12/2/2011 Substantially Implemented

Target Date: 12/31/2012

Response: As noted in the SAO report, the Department was then operating with 32 fewer commissioned examiners than the agency's staffing plan required, which made correction of this audit finding challenging. A lack of experienced examiners lowers the production efficiency levels, and inexperienced staff requires more training. Since the SAO report, the Department has worked diligently to build the experience level of its examination staff.

Management's Response from Original Report

The Department closely monitors its timeliness in conducting examinations within the prescribed time and reports this information at each Finance Commission meeting. Unfortunately, examination priority dates are very specific and as mentioned, no high risk institutions were examined late. When necessary due to risk and priority status, examinations for low risk institutions will be pushed back to address more pressing supervisory responsibilities. Occasionally, banks will have issues such as pending mergers, acquisitions, system conversions or management absences that also need to be considered in establishing an efficient examination schedule. Further, the Department must coordinate joint examination activities with federal regulators and must consider their ability in meeting scheduled review times. And, the Department has job postings to hire experienced examiners for limited term positions to supplement our current staff through this period of increased economic distress.

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Agency Audits for the period FY2005 to date

FY2015

Department of Information Resources IT Penetration Test (In progress)

FY2014

Internal Audit

Garza/Gonzales Consumer Protection

External Audit

Comptroller of Public Accounts Post-payment and Post-procurement Audit

State Office of Risk Management Premises Walk-through
Department of Information Resources IT Penetration Test

FY2013

Internal Audit

Garza/Gonzales Thrift Supervision

External Audit

Texas Workforce Commission Personnel Policies and Procedures Review

State Office of Risk Management Risk Management Program Review

Department of Information Resources IT Penetration Test

FY2012

Internal Audit

Garza/Gonzales Mortgage Licensing

External Audit

Department of Information Resources IT Penetration Test

Department of Public Safety Use of Criminal History Information

FY2011

Internal Audit

Garza/Gonzales Legal and Enforcement

Revenue Accounting Process

External Audit

Department of Information Resources IT Penetration Test

FY2010

Internal Audit

Garza/Gonzales Thrift Examination (SAO Follow up)

External Audit

State Auditor's Office Savings Banks Oversight, Part II

Comptroller of Public Accounts Post-payment and Post-procurement Audit

State Office of Risk Management Premises Walk-through
Department of Information Resources IT Penetration Test

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Agency Audits for the period FY2005 to date

FY2009

Internal Audit

Garza/Gonzales Payroll and Human Resources

Fixed Assets and Records Management

External Audit

State Auditor's Office Savings Banks Oversight, Part I
State Office of Risk Management Risk Management Program Review

Department of Information Resources IT Penetration Test

FY2008

Internal Audit

Garza/Gonzales Performance Measures

Mortgage Broker Inspection

External Audit

State Office of Risk Management Premises Walk-through
Department of Information Resources IT Penetration Test

FY2007

Internal Audit

Strickler & Prieto Legal

Management Information Systems

External Audit

Texas Workforce Commission Personnel Policies and Procedures Review

State Office of Risk Management Premises Walk-through

Federal Bureau of Investigation Use of Criminal History Information

Department of Information Resources IT Penetration Test

FY2006

Internal Audit

Wiener Strickler Mortgage Broker Licensing

Corporate Activities

External Audit

Comptroller of Public Accounts
Tx Bldg and Procurement Commission

State Auditor's Office

State Office of Risk Management

Post-payment Audit Post-procurement Audit

Predatory Lending

Risk Management Program Review

FY2005

Internal Audit

Garza/Gonzales Thrift Examinations
Fiscal Division

External Audit

None

Office of Consumer Credit Commissioner Audit History

Voor	Dy Mhom	Durance	Voor	Dr. Mhone	Durmana
2004	By Whom	Purpose Post-Procurement & Payment Audit	2010	By Whom	Purpose Post-Payment, Post-Procurement, Personnel,
2004	Garza/ Gonzalez	Risk Assessment	2010	Garza/ Gonzalez	Risk Assessment
	Garza/ Gonzalez	Consumer Complaint & Investigations		Garza/ Gonzalez	Pawn Examinations Audit
	Garza/ Gonzalez	Pawnshop Employees Audit		Garza/ Gonzalez	Regulated Lender Examination Audit
	Garza/ Gonzalez	Annual Follow-up Audit		Garza/ Gonzalez	•
	Garza/ Gorizalez	Allitual Follow-up Audit		DIR	Annual Follow-up Audit
2005	Garza/ Gonzalez	Risk Assessment		DIK	IT Penetration Testing
2003	Garza/ Gonzalez	Regulated Lender Examination Audit	2011	Garza/ Gonzalez	Risk Assessment
	Garza/ Gonzalez	Fiscal Division Audit	2011	Garza/ Gonzalez	Information Resources
	Garza/ Gonzalez	Annual Follow-up Audit		Garza/ Gonzalez	Licensing
	Garza/ Gorizaicz	Allitai i ollow-up Addit		DIR	IT Penetration Testing
2006	TBPC	Post-Procurement & Payment Audit			
	SORM	Risk Management Program Review	2012	Garza/ Gonzalez	Risk Assessment
	CPA	Post-Payment Audit		Garza/ Gonzalez	Complaint Investigations Audit
	TWC	Personnel Policy & Procedure		Garza/ Gonzalez	Annual Follow-up Audit
	Strickler	Risk Assessment		SORM	Risk Management Program Review
	Strickler	Motor Vehicle Sales Finance Exam		SAO	Agency Performance Audit
	Strickler	Consumer Education Audit		DPS	Licensing Audit
	Strickler	Annual Follow-up Audit			· ·
		т	2013	FBI	Fingerprint ID System Audit
2007	TWC	Personnel Policy & Procedure		TWC	Personnel Policy & Procedure
	SAO	Performance Measure Audit		CPA	Post-Payment, Post-Procurement, Personnel,
	DIR	IT Penetration Testing		Garza/ Gonzalez	Risk Assessment
	Strickler	Risk Assessment		Garza/ Gonzalez	Credit Access Business Exam Audit
	Strickler	Business Application Process Audit		DIR	IT Penetration Testing
	Strickler	Information Systems Audit			
	Strickler	Annual Follow-up Audit	2014	Garza/ Gonzalez	Risk Assessment
				Garza/ Gonzalez	Pawnshop Employees Audit
2008	SAO	Agency Performance Audit		Garza/ Gonzalez	MLO Audit
	DIR	IT Penetration Testing		Garza/ Gonzalez	Annual Follow-up Audit
	Garza/ Gonzalez	Risk Assessment			
	Garza/ Gonzalez	Record Retention & Fixed Asset	2015	Garza/ Gonzalez	Risk Assessment
	Garza/ Gonzalez	Annual Follow-up Audit			
•					
2009	Garza/ Gonzalez	Risk Assessment			
	SORM	Risk Management Program Review			
	DIR	IT Penetration Testing			
	Garza/ Gonzalez	Payroll & Human Resources			
	Garza/ Gonzalez	Revenues & Collections of Fees			
	Garza/ Gonzalez	Annual Follow-up Audit			

Department of Banking - Audits Performed

Fiscal Year 2014

- Internal Audits:
 - o Money Services Businesses
 - Management Information Systems (MIS)
- Comptroller Post Payment Audit
- SORM On-Site Risk Management Program Review
- SORM Death Investigation

Fiscal Year 2013

- Internal Audits:
 - o Prepaid Funeral Contract Examinations
 - Corporate Activities
- SAO Off-Site Review of Outstanding Bank Examination Audit Findings
- DPS Criminal History Record Audit
- Gartner Network Security
- DIR Network Security Controlled Penetration Test

Fiscal Year 2012

- Internal Audits:
 - o Prepaid Funeral Guaranty Funds
 - o Bank Examinations
- TWC Civil Rights Audit
- SAO Off-Site Review of Outstanding Bank Examination Audit Findings
- DIR Network Security Controlled Penetration Test

Fiscal Year 2011

- Internal Audits:
 - o Revenue Accounting Process
 - o Trust Examinations
 - o Financial Reporting
- DIR Network Security Controlled Penetration Test

Fiscal Year 2010

- Internal Audits:
 - o Money Service Business Examinations
 - o IT Examinations
 - Management Information Systems

- State Auditor's Office Bank Examinations Supplement for newly released examination data by the FDIC (November 2009)
- Comptroller Post Payment Audit
- SORM On-Site Risk Management Review
- DIR Network Security Controlled Penetration Test

Fiscal Year 2009

- Internal Audits:
 - o Perpetual Care Cemetery Examinations
 - o Performance Measures
 - o Fixed Asset Management
- State Auditor's Office Bank Examinations (July 2009)
- SORM On-Site Risk Management Review
- DIR Network Security Controlled Penetration Test

Fiscal Year 2008

- Internal Audits:
 - o Prepaid Funeral Contract Examinations
 - o Imaging and Records Management
 - Corporate Activities
- SORM On-Site Risk Management Review
- DIR Network Security Controlled Penetration Test

Fiscal Year 2007

- Internal Audits:
 - o Money Service Business Examinations
 - o Trust Examinations
 - o Management Information Systems
- SORM On-Site Risk Management Review

Fiscal Year 2006

- Internal Audits:
 - o Bank Examinations
 - o Payroll and Human Resources
 - Legal Activities
- Comptroller Post Payment Audit
- SORM On-Site Risk Management Review
- TWC Civil Rights Audits
- DIR Network Security Controlled Penetration Test

Austin, Texas

INTERNAL AUDIT PLAN

For Fiscal Year 2015

Austin, Texas

Internal Audit Plan For Fiscal Year 2015

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and Audit Committee Members Austin, Texas

Enclosed is the proposed fiscal year 2015 Internal Audit Plan (Plan) for the Finance Commission. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2015 for the Texas Department of Banking (DOB), Department of Savings and Mortgage Lending (SML) and the Office of Consumer Credit Commissioner (OCCC). Specific planning for audit procedures is a naturally ongoing process; thus, the Plan is reviewed annually and may be revised as necessary by the Board or Audit Committee.

This Plan has been prepared following Generally Accepted Auditing Standards and International Standards for the Professional Practice of Internal Auditing, as determined by the Institute of Internal Auditors.

Darga/Donzaly
Sussciates
November 10, 2014

Austin, Texas

Internal Audit Plan For Fiscal Year 2015

I. Methodology

The fiscal year 2015 Internal Audit Plan (Plan) for the Finance Commission was prepared using a risk assessment process, where we reviewed various documents and questionnaires completed by each of the 3 agencies, as documented below. These 3 agencies, which are considered financial regulatory agencies, were granted self-directed, semi-independent (SDSI) status in the 81st Legislature Session, effective September 1, 2009. With the SDSI status, these agencies are not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting their spending authority or limits. Each agency's entire operating funds are generated from fees assessed to the businesses they supervise and are used to fund both direct and indirect costs. General revenue funds are not used to support their operations.

The following documents were reviewed to update our understanding of the 3 agencies:

- Operating Budgets
- Organizational Charts
- Policies and Procedures
- Applicable Laws and Rules
- Audit and/or Monitoring Reports from Third Party Agencies
- Prior Internal Audit Reports

Additionally, we developed questionnaires for completion by the Commissioners, Deputy Commissioners, and/or Division Directors to update our understanding of each Division, and its role within the overall scheme of the respective agency. The questionnaires included topics; such as, recent changes in key personnel, time elapsed since last audit, past audit findings, and regulatory compliance. Utilizing information obtained through the questionnaires and background information reviewed, audit areas for each of the 3 agencies were identified as potential audit topics. A risk analysis was completed for each individual audit topic and then compiled to develop an overall risk assessment for each of the 3 agencies.

The following 8 risk factors were considered for each potential audit topic:

1.	Financial Materiality	Measure of the auditable unit's materiality based on the dollar amount per year of assets, receipts, or disbursements for which it is responsible.
2.	Time Since Last Audit or Review	Measure of the number of years between the date of the previous audit or review and the date of the risk assessment.
3.	Results of Last Audit or Review	Measure of the results of the previous audit or review.
4.	Adequacy of Staffing Levels	Measure of the adequacy of the staffing level of the auditable unit as it relates to the achievement of its objectives.
5.	Policies and Procedures	Measure of the existence of policies and procedures documenting the auditable unit's activities.
6.	Compliance with Contracts, Laws, and Regulations	Measure of the existence of contracts, laws, and/or regulations for which the auditable unit is responsible for complying.
7.	Susceptibility of Material Theft or Fraud	Measure of the auditable unit's risk and controls in place as it relates to material theft or fraud.
8.	Issues or Concerns	Measure of issues or concerns by management, the Finance Commission, or Audit Committee.

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II. Scope

In accordance with the International Standards for the Professional Practice of Internal Auditing, the audit scope will encompass the examination and evaluation of the adequacy and effectiveness of the respective agency's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- Reliability and Integrity of Financial and Operational Information Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Compliance with Policies, Procedures, Laws, Regulations, and Contracts Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- Safeguarding of Assets Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Effectiveness and Efficiency of Operations and Programs Appraise the effectiveness and efficiency with which resources are employed.
- Achievement of the Organization's Strategic Objectives Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

III. Texas Department of Banking

Internal Audit Plan

The Internal Audit Plan (Plan) includes 2 audits to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks that may be assigned by the Finance Commission during the year, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Revenue Accounting Process	Perpetual Care Cemeteries Trust Examinations IT Examinations Purchasing Payroll & Human Resources Money Services Businesses Prepaid Funeral Guaranty Funds Bank Examinations Management Information Systems	Imaging & Records Management Financial Reporting Travel Prepaid Funeral Contracts Fixed Asset Management Risk Management Corporate Activities

The 2015 Risk Assessment Summary is included on page 12 of this report.

Internal Audit Plan

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

- Money Services Businesses
- Management Information System

Fiscal Year 2013:

- Corporate Activities
- Prepaid Funeral Contracts

Fiscal Year 2012:

- Bank Examinations
- Prepaid Funeral Guaranty Funds

The areas recommended for internal audits and other functions to be performed for fiscal year 2015 are as follows:

1. Revenue Accounting Process

The planned audit procedures include the following:

- a. Review and obtain an understanding of the applicable laws and regulations provided in the Texas Administrative Code, Texas Finance Code, Texas Government Code, and the Texas Health and Safety Code.
- b. Obtain and review written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls.
- c. Select and test a sample of transactions to ensure the fee is supported, assessed in accordance with applicable state laws and regulations; and, properly calculated, collected and recorded.
- d. Perform analytical procedures to ensure reported revenues are consistent to actual operations.
- e. Other procedures deemed necessary during audit fieldwork.

Internal Audit Plan

2. Perpetual Care Cemeteries

The planned audit procedures include the following:

- a. Review and obtain an understanding of applicable laws and regulations provided in the Texas Health and Safety Code and the Texas Administrative Code.
- b. Obtain and review the PCC area's written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls.
- c. Ensure the inclusion of significant laws and regulations within the examination procedures used to examine records of the PCC licensees.
- d. Select a sample of examinations and review the applicable workpapers to determine if controls in place are functioning as intended.
- e. Test a sample of applications and renewals to ensure proper issuance of a PCC license.
- f. Test a sample of filing, renewal, and examination fees to ensure accuracy in the amount billed and collected in accordance with the Texas Administrative Code.
- g. Other procedures deemed necessary during audit fieldwork.

3. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

4. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

IV. Department of Savings and Mortgage Lending

Internal Audit Plan

The Internal Audit Plan (Plan) includes 1 audit to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks that may be assigned by the Finance Commission during the year, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 14 audit areas were identified as potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 14 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Legal and Enforcement	Fixed Assets	Management Information Systems
Payroll and Human Resources	Mortgage Examinations	Records Management
	Thrift Examinations	Ŭ
	Revenue Accounting	Consumer Protection
	Process	Mortgage Licensing
	Purchasing and Travel	Risk Management
	Thrift Supervision and Compliance	Financial Reporting

The 2015 Risk Assessment Summary is included on page 13 of this report.

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

Consumer Protection

Fiscal Year 2013:

Thrift Supervision and Compliance

Fiscal Year 2012:

Mortgage Licensing

Internal Audit Plan

The area recommended for internal audit and other functions to be performed for fiscal year 2015 are as follows:

1. Mortgage Examinations

The planned audit procedures include the following:

- a. Obtain an understanding of the processes and controls in place in performing mortgage examinations.
- b. Select a sample of examinations performed during the year to determine if the internal controls over the examination process are functioning as intended, applicable laws and regulations are consistently applied, and that the process is adequately managed and monitored.
- c. Test compliance with applicable performance measures.
- d. Other procedures deemed necessary during audit fieldwork.

2. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

3. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

V. Office of Consumer Credit Commissioner

Internal Audit Plan

The Internal Audit Plan (Plan) includes 1 audit to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 17 audit areas were identified as the potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Texas Financial Education Endowment Fund	Fiscal Division	Human Resources
	Regulated Examinations	Records Management
Property Tax Lender Examinations	Pawn Examinations	Business Licensing
Motor Vehicle Sales Finance Examinations	Registration	Professional Licensing (Pawnshop Employees &
Billing and Collection of Fees	Fixed Assets	MLO)
		Credit Access Business Examinations
		Complaint Investigations
		Management Information Systems
		Risk Management

The 2015 Risk Assessment Summary is included on page 14 of this report.

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

Professional Licensing

Fiscal Year 2013:

Credit Access Business Examinations

Fiscal Year 2012:

Complaint Investigations

Internal Audit Plan

The area recommended for internal audit and other functions to be performed for fiscal year 2015 are as follows:

1. Texas Financial Education Endowment (TFEE) Fund

The planned audit procedures include the following:

- a. Review and obtain an understanding of the laws and regulations provided in the Texas Finance Code (TFC) and Texas Administrative Code (TAC), as applicable to the TFEE Fund.
- b. Obtain and review the written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls in place for the administration of the TFEE Fund.
- c. Obtain bank statements from financial institutions to support the establishment and existence of the TFEE account and to confirm account balances.
- d. Obtain evidence that monthly reconciliations of the TFEE account are being prepared.
- e. Obtain a listing of applications received and grants awarded from the TFEE Fund and select a sample to test for compliance with policies, procedures and current practices in place.
- f. Select a sample or quarterly and annual reports submitted by each grantee to ensure reports are submitted timely and include required information.
- g. Obtain a listing of annual assessment fees collected from the Credit Access Businesses licensees to ensure the proper amount was transferred to the TFEE Fund.
- h. Other procedures deemed necessary during audit fieldwork.

2. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

3. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

ATTACHMENTS

TEXAS DEPARTMENT OF BANKING Risk Assessment Summary Fiscal Year 2015

								DIO		OD W	FIGUE							
		40	000/	40	50 0/	40	000/		K FACT			40	000/	•	000/	40	000/	
		10.	.00%	16	.50%	16.	00%	15.00%		12.50%		12.00%		8.00%		10.00%		
									DICK E	ACTO	ne							
			1		2	RISK FACT							6		7		8	
		•			2		3	4			5		oliance		′		0	
	with																	
				Time	Since	Resu	ults of	Ade	quacy	Poli	icies	Conf	tracts,	Susce	ptibility			
			ancial		Audit		Audit		affing		nd		ws &		aterial		ies or	
ı	POTENTIAL AUDIT TOPIC	Mate	riality	or R	eview	or R	eview	Le	vels	Proce	edures	Regu	lations	Theft of	or Fraud	Con	cerns	Total
	High Risk: >145																	
1	Revenue Accounting Process	3	30.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.50
_	Moderate Risk: 134 - 145																	
2	Perpetual Care Cemeteries	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
3	Trust Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
-	IT Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
	Purchasing	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
6	Payroll & Human Resources	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
7	Money Services Businesses	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.00
8	Prepaid Funeral Guaranty Funds	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
9	Bank Examinations	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	1	10.00	139.00
10	Management Information Systems	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	136.00
	Low Risk: < 134	•																
	Imaging & Records Management	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
	Financial Reporting	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
-	Travel	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	1	12.00	2	16.00	1	10.00	128.00
	Prepaid Funeral Contracts	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
	Fixed Asset Management	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	120.00
	Risk Management	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	116.00
17	Corporate Activities	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	112.00

Risk Factor Rating:

- 1 Low Risk
- 2 Moderate Risk
- 3 High Risk

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING Risk Assessment Summary For Fiscal Year 2015

								RIS	K FAC	TOR V	VEIGHT							
		10	.00%	16	5.50%	16	16.00%		15.00%		12.50%		2.00%	8.00%		10.00%		
									RISK F	ACTO	RS							
			1		2		3	4		5		C	6		7	8		
													pliance			Fxis	tence	
				Time	e Since	Res	ults of	Ade	quacy		Contracts, Susceptibility						ssues	
		Financial Last Audit Last Audit of Staffing Poli						Polic	ies and	La	ws &	of I	Material		or			
	POTENTIAL AUDIT TOPIC	Mate	eriality	or F	Review	or R	eview	Le	vels	Proc	edures	Reg	ulations	Theft	or Fraud	Con	cerns	Total
	High Risk: > 146																	
1	Legal and Enforcement	1	10.00	2	33.00	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	1	10.00	155.50
2	Payroll and Human Resources	3	30.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	155.00
	Moderate Risk: 136 - 146																	
3	Fixed Assets	2	20.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	145.00
4	Mortgage Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
5	Thrift Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
6	Revenue Accounting Process	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
7	Purchasing and Travel	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
8	Thrift Supervision and Compliance	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	1	10.00	139.00
	Low Risk: <136																	
9	Management Information Systems	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	135.00
10	Records Management	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
11	Consumer Protection	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.00
	Mortgage Licensing	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
	Risk Management	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	1	12.00	1	8.00	1	10.00	115.00
14	Financial Reporting	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	112.00

Risk Factor Rating:

- 1 Low Risk
- 2 Moderate Risk
- 3 High Risk

OFFICE OF CONSUMER CREDIT COMMISSIONER Risk Assessment Summary For Fiscal Year 2015

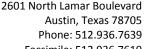
RISK FACTOR WEIGHT

		10.00%		16.50%		16	.00%	15	15.00%		50%	12	2.00%	8.00%		10.00%		
									RISK	FACT	ORS							
	•		1		2		3		4	5		6		7		8		
												Com	pliance	!				
												١	with	Susceptibility of Material		y Existence		
				Time Since		e Results of		Ade	quacy	Pol	icies	Cor	ntracts,					
			ancial		Audit				taffing	-	nd		ws &		neft or		sues or	
	POTENTIAL AUDIT TOPIC	Mate	eriality	or R	eview	or R	eview	Le	evels	Proc	edures	Reg	ulations	F	raud	Cor	cerns	Total
	High Risk: > 156																	
1	Texas Financial Education Endowment Fund	3	30.00	3	49.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	173.00
2	Property Tax Lender Examinations	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	157.00
3	Motor Vehicle Sales Finance Examinations	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	157.00
4	Billing and Collection of Fees	3	30.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.50
	Moderate Risk: 138 - 156																	
5	Fiscal Division (includes Purchasing & Travel & Payroll Division)	3	30.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.00
6	Regulated Examinations (includes Training)	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
7	Pawn Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
8	Registration	1	10.00	1	16.50	2	32.00	1	15.00	2	25.00	2	24.00	1	8.00	1	10.00	140.50
9	Fixed Assets	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
	Low Risk: < 138								_									
	Human Resources	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	135.00
	Records Management	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
	Business Licensing	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
	Professional Licensing (Pawnshop Employees & MLO)	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.00
	Credit Access Business Examinations	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
	Complaint Investigations	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
	Management Information Systems	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	120.00
17	Risk Management	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	100.00

Risk Factor Rating:

- 1 Low Risk
- 2 Moderate Risk
- 3 High Risk

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Facsimile: 512.936.7610 www.tfee.texas.gov

Texas Financial Education Endowment Report

The second round of Texas Financial Education Endowment (TFEE) grant report forms are being prepared. Grant reports will go out to grantees on January 1 and are due on January 30, 2015.

Staff is beginning a review of policies, procedures and forms in preparation for the next grant cycle.

Overall, staff uses every speaking engagement to promote the TFEE grant program and encourages those interested to look at the TFEE website for an in-depth look at the guidelines in preparation for the next grant cycle, beginning in September, 2015.